

Department of Economic Security

| | FY 2015 ACTUAL | FY 2016 ESTIMATE | FY 2017 APPROVED |
|--|----------------------|-------------------------------------|---|
| OPERATING BUDGET | | | |
| <i>Full Time Equivalent Positions</i> | 3,882.6 | 4,147.7 | 4,218.0 ^{1/} |
| Personal Services | 84,227,700 | 72,375,500 | 73,444,800 |
| Employee Related Expenditures | 39,427,400 | 34,121,500 | 34,030,300 |
| Professional and Outside Services | 20,888,900 | 13,210,600 | 13,233,200 |
| Travel - In State | 923,300 | 634,200 | 654,500 |
| Travel - Out of State | 65,200 | 96,300 | 96,300 |
| Other Operating Expenditures | 52,673,400 | 30,273,000 | 34,236,900 |
| Equipment | 5,268,800 | 3,241,000 | 3,564,800 |
| OPERATING SUBTOTAL | 203,474,700 | 153,952,100 ^{2/} | 159,260,800 ^{3/4/} |
| SPECIAL LINE ITEMS | | | |
| Administration | | | |
| ABLE Program | 0 | 0 | 240,000 ^{5/} |
| Attorney General Legal Services | 9,750,600 | 11,067,600 | 10,996,600 |
| Aging and Adult Services | | | |
| Adult Services | 7,924,100 | 7,924,100 | 8,624,100 |
| Community and Emergency Services | 3,724,000 | 3,724,000 | 3,724,000 |
| Coordinated Homeless Services | 2,522,600 | 2,522,600 | 2,522,600 |
| Domestic Violence Prevention | 12,123,700 | 12,123,700 | 14,003,700 ^{6/7/8/} |
| Benefits and Medical Eligibility | | | |
| TANF Cash Benefits | 38,599,400 | 35,094,400 ^{2/9/} | 27,736,400 |
| Coordinated Hunger Services | 1,754,600 | 1,754,600 | 1,754,600 |
| Tribal Pass-Through Funding | 4,680,300 | 4,680,300 | 4,680,300 |
| Child Support Enforcement | | | |
| County Participation | 5,155,700 | 6,740,200 | 8,740,200 |
| Development Disabilities ^{10/11/12/13/14/} | | | |
| DDD Operating Lump Sum | 0 | 47,835,800 ^{2/} | 49,477,100 ^{15/} |
| Case Management - Medicaid | 48,403,700 | 50,968,300 ^{2/} | 55,347,700 ^{15/} |
| Home and Community Based Services - Medicaid | 762,045,500 | 942,362,600 ^{2/9/} | 994,277,300 ^{16/} |
| Institutional Services - Medicaid | 19,220,600 | 20,737,300 ^{2/} | 22,610,900 |
| Medical Services - Medicaid | 138,695,000 | 151,677,700 ^{2/} | 165,514,500 |
| Arizona Training Program at Coolidge - Medicaid | 15,403,800 | 15,822,100 ^{2/} | 15,735,100 |
| Medicare Clawback Payments | 2,902,400 | 2,928,700 | 3,370,600 |
| Case Management - State-Only | 3,978,600 | 3,912,700 | 3,893,700 ^{15/} |
| Home and Community Based Services - State-Only | 19,776,100 | 21,443,200 ^{2/} | 16,913,400 |
| State-Funded Long Term Care Services | 25,930,800 | 26,554,000 ^{2/} | 27,159,600 |
| Employment and Rehabilitation Services | | | |
| JOBS | 10,022,500 | 13,005,600 | 13,005,600 |
| Child Care Subsidy | 64,521,300 | 98,396,600 | 98,396,600 ^{17/} |
| Rehabilitation Services | 3,799,100 | 5,799,100 ^{9/} | 7,249,100 |
| Independent Living Rehabilitation Services | 1,257,800 | 1,289,400 | 1,289,400 |
| Workforce Investment Act Services | 39,654,300 | 51,654,600 | 51,654,600 ^{18/} |
| AGENCY TOTAL | 1,445,716,100 | 1,693,971,300 ^{19/} | 1,768,178,500 ^{20/-22/} |
| FUND SOURCES | | | |
| General Fund | 482,462,200 | 523,934,200 | 530,124,400 |
| <u>Other Appropriated Funds</u> | | | |
| Child Support Enforcement Administration Fund | 9,789,900 | 16,719,600 | 16,632,600 |
| Domestic Violence Services Fund | 2,220,000 | 2,220,000 | 4,000,000 ^{6/7/8/} |
| Federal CCDF Block Grant | 73,873,300 | 107,773,600 | 107,773,600 |

| | FY 2015 ACTUAL | FY 2016 ESTIMATE | FY 2017 APPROVED |
|--|----------------------|----------------------|---------------------------|
| Federal TANF Block Grant | 85,648,800 | 76,822,700 | 72,964,700 |
| Health Services Lottery Monies Fund | 0 | 0 | 700,000 |
| Long Term Care System Fund (Non-Federal Matched) | 28,930,800 | 31,251,300 | 26,559,600 |
| Public Assistance Collections Fund | 30,800 | 424,600 | 421,900 |
| Special Administration Fund | 2,817,300 | 2,939,700 | 5,528,700 |
| Spinal and Head Injuries Trust Fund | 1,807,200 | 1,874,800 | 2,323,700 |
| Statewide Cost Allocation Plan Fund | 1,000,000 | 1,000,000 | 1,000,000 |
| Workforce Investment Act Grant | 41,730,500 | 56,050,500 | 56,040,200 ^{18/} |
| SUBTOTAL - Other Appropriated Funds | 247,848,600 | 297,076,800 | 293,945,000 |
| SUBTOTAL - Appropriated Funds | 730,310,800 | 821,011,000 | 824,069,400 |
| Expenditure Authority Funds | | | |
| Child Support Enforcement Administration Fund (EA) | 36,352,500 | 40,230,200 | 42,299,500 |
| Long Term Care System Fund (Federal Match) | 679,052,800 | 832,730,100 | 901,809,600 |
| SUBTOTAL - Expenditure Authority Funds | 715,405,300 | 872,960,300 | 944,109,100 |
| SUBTOTAL - Appropriated/Expenditure Authority Funds | 1,445,716,100 | 1,693,971,300 | 1,768,178,500 |
| Other Non-Appropriated Funds | 337,176,800 | 335,108,200 | 325,314,300 |
| Federal Funds | 1,928,553,600 | 1,944,424,900 | 1,962,863,200 |
| TOTAL - ALL SOURCES | 3,711,446,500 | 3,973,504,400 | 4,056,356,000 |

AGENCY DESCRIPTION — The department provides an array of services for low-income households and others in need. These services are provided through the following divisions: Administration; Developmental Disabilities; Benefits and Medical Eligibility; Child Support Enforcement; Aging and Community Services; and Employment and Rehabilitation Services.

- ^{1/} Includes 646.2 GF, 247.2 OF, and 1,450.2 EA FTE Positions funded from Special Line Items in FY 2017.
- ^{2/} In April 2016, DES made the following transfers: \$3,500,000 from the TANF Cash Benefits line item to the operating budget; \$1,000,000 from the Home and Community Based Services - State-Only line to the State Funded Long Term Care Services line; \$21,500,000 from the Home and Community Based Services - Medicaid line item to the DDD Operating Lump Sum (\$10,500,000), Case Management - Medicaid (\$5,500,000), Institutional Services - Medicaid (\$1,500,000), Medical Services - Medicaid (\$3,000,000), and Arizona Training Program at Coolidge - Medicaid (\$1,000,000) line items. The current display does not reflect these transfers.
- ^{3/} The operating lump sum appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)
- ^{4/} All state shares of retained earnings, fees and federal incentives above \$16,632,600 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New FTE Positions may be authorized with the increased funding. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- ^{5/} Laws 2016, Chapter 214 appropriated \$240,000 from the General Fund for the administration of the new Achieving a Better Life Experience (ABLE) Program.
- ^{6/} Of the \$4,000,000 in Domestic Violence Services Fund monies appropriated, the Department of Economic Security shall spend \$1,500,000 for capital improvements or one-time projects for domestic violence facilities that are receiving monies from the fund in FY 2017. (General Appropriation Act footnote)
- ^{7/} All Domestic Violence Services Fund monies in excess of \$4,000,000 received by the Department of Economic Security are appropriated for the Domestic Violence Prevention line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$4,000,000 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{8/} The Department of Economic Security shall report to the Joint Legislative Budget Committee on the amount of state and federal monies available statewide for domestic violence funding on or before December 15, 2016. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- ^{9/} In addition to any other appropriations made in FY 2016, the sum of \$21,000,000 is appropriated from the state General Fund in FY 2016 to the Department of Economic Security for payments of FY 2016 claims: 1. \$20,000,000 for the Home and Community Based Services Medicaid line item and 2. \$1,000,000 for the Rehabilitation Services line item.
- In addition to any other appropriations made in FY 2016, the sum of \$6,752,300 is appropriated from the state General Fund in FY 2016 to the Department of Economic Security's Home and Community Based Services Medicaid line item. The Department of Economic Security shall use these monies to draw down federal matching funds in FY 2016 for the Division of Developmental Disabilities capitation payments. The Department of Economic Security shall request review by the Joint Legislative Budget Committee before spending monies for any other purpose.
- In addition to any other appropriations made in FY 2016, the sum of \$14,893,200 is appropriated from the Long-Term Care Fund Expenditure Authority in FY 2016 to the Department of Economic Security's Home and Community Based Services Medicaid line item. The Department of Economic Security shall request review by the Joint Legislative Budget Committee before spending monies for any other purpose.

Summary

The Department of Economic Security's (DES) FY 2017 General Fund spending increased by \$27,190,200, or 5.2% above the FY 2016 appropriation. This amount excludes a

\$21,000,000 decrease associated with the removal of the one-time FY 2016 General Fund supplemental appropriation for the elimination of a payment deferral. The adjustment includes:

- In addition to any other appropriations made in FY 2016, the appropriation to the Department of Economic Security's Temporary Assistance for Needy Families Cash Benefits line is reduced by \$9,905,000 from the Temporary Assistance for Needy Families Block Grant in FY 2016. (General Appropriation Act footnote)
- 10/ The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care System, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
 - 11/ Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments that are not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriation Act footnote)
 - 12/ The department shall report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee any new placement into a state-owned ICF-IID or the Arizona Training Program at the Coolidge campus in FY 2017 and the reason why this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. The department shall make this report available on or before July 15, 2017. (General Appropriation Act footnote)
 - 13/ The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review of any new Division of Developmental Disabilities salary adjustments not previously reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
 - 14/ The department shall report to the Joint Legislative Budget Committee on or before September 1, 2016 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2016. The department shall submit an expenditure plan of its staffing levels for review by the Joint Legislative Budget Committee if the department plans on hiring staff for non-case manager, non-case aide, non-case unit supervisor and non-case section manager positions above the staffing level indicated in the September 1, 2016 report. (General Appropriation Act footnote)
 - 15/ Before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
 - 16/ The appropriated amount in the Home and Community Based Services - Medicaid line item includes \$2,791,800 from the state General Fund and \$6,260,600 in developmental disabilities Medicaid expenditure authority for an across-the-board 1% full-year rate adjustment for Home and Community Based Services providers to individuals with developmental disabilities whose current rates are less than 100% of the benchmark rates published in the 2014 rate rebase study, in addition to any adjustment as part of the aggregate 2.5% capitation rate increase. A provider rate may not increase to more than 100% of the benchmark rates published in the 2014 rate rebase study as a result of the 1% adjustment. The department shall report its distribution plan to the Joint Legislative Budget Committee on or before August 1, 2016. (General Appropriation Act footnote)
 - 17/ It is the intent of the Legislature that the combined number of children in child care assistance authorized pursuant to A.R.S. § 46-803D and F be maintained throughout the year at a minimum of 8,500 children. The department shall prioritize child care assistance for families who qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I. (General Appropriation Act footnote)
 - 18/ All Federal Workforce Investment Act monies that are received by this state in excess of \$56,040,200 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$56,040,200 to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
 - 19/ The Department of Economic Security may use up to \$35,000,000 from the Budget Stabilization Fund established by A.R.S. § 35-144 for the purpose of providing funding for reimbursement grants. Notwithstanding any other law, this appropriation shall be fully reimbursed on or before September 1, 2016 and be reimbursed in full as part of the closing process for FY 2016. The appropriation may not be used for additional programmatic expenditures.
The Department of Child Safety, the Department of Economic Security and the Department of Administration shall provide a report to the Joint Legislative Budget Committee Staff and the Governor's Office of Strategic Planning and Budgeting on or before November 30, 2016 outlining the process by which the agencies will improve the federal reimbursement claiming process with the intent to eliminate the need for an appropriation in FY 2017 that is similar to those in subsections A and B of this section. (General Appropriation Act footnote)
 - 20/ The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security pursuant to A.R.S. § 42-5029. (General Appropriation Act footnote)
 - 21/ The department shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and potential federal and other monies, such as the statewide assessment for indirect costs, and any projected surplus in state-supported programs that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
 - 22/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.

- \$21,077,600 for new FY 2017 Developmentally Disabled (DD) Medicaid formula changes. This also funds a 2.5% DD capitation rate increase in FY 2017.
- \$2,959,300 for a 1% increase for DD Home and Community Based Services (HCBS) provider rates.
- \$1,233,400 for DD adult dental services.
- \$2,000,000 for Vocational Rehabilitation (VR) services.
- \$240,000 to administer the new Achieving a Better Life Experience (ABLE) Program.
- \$100,000 in one-time funding for domestic violence shelters.
- \$(420,100) for statewide adjustments.

Operating Budget

The budget includes \$159,260,800 and 1,874.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

| | FY 2017 |
|--|----------------|
| General Fund | \$78,276,300 |
| Child Support Enforcement Administration Fund | 13,106,600 |
| Child Support Enforcement Administration Fund (EA) | 27,542,200 |
| Federal Temporary Assistance for Needy Families (TANF) Block Grant | 20,315,500 |
| Federal Child Care and Development Fund (CCDF) Block Grant | 12,077,100 |
| Public Assistance Collections Fund | 331,100 |
| Special Administration Fund | 3,692,800 |
| Spinal and Head Injuries Trust Fund | 543,600 |
| Statewide Cost Allocation Plan Fund | 1,000,000 |
| Workforce Investment Act Grant | 2,375,600 |

These amounts fund the following adjustments:

Expenditure Authority

The budget includes an increase of \$248,900 and 3 FTE Positions from the Child Support Enforcement Fund (EA) in FY 2017 to align expenditure authority with actual operations.

Expenditure Alignment

The budget includes an increase of \$3,500,000 from the Federal TANF Block Grant in FY 2017 to the operating budget and a corresponding decrease of \$(3,500,000) from the TANF Cash Benefits line item to reflect actual fund usage. *(Please see TANF Cash Benefits section for further discussion.)*

One-Time Adult Protective Services Caseload Growth

The budget includes a one-time increase of \$2,000,000 from the Special Administration Fund in FY 2017 to fund Adult Protective Services (APS) caseload growth. APS staff responds to reports of abuse, neglect and exploitation of vulnerable and incapacitated adults and offers appropriate services. The current caseload per APS investigator is 72. The additional funding is expected to bring caseloads down to 55 per investigator in FY 2017.

Statewide Adjustments

The budget includes a decrease of \$(440,200) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|--|-----------|
| General Fund | (212,400) |
| Child Support Enforcement Administration Fund | (71,300) |
| Child Support Enforcement Administration Fund (EA) | (131,500) |
| Public Assistance Collections Fund | (2,600) |
| Special Administration Fund | (11,000) |
| Spinal and Head Injuries Trust Fund | (1,100) |
| Workforce Investment Act Grant | (10,300) |

(Please see the Agency Detail and Allocations section.)

Administration

ABLE Program

Laws 2016, Chapter 214 appropriates \$240,000 from the General Fund in FY 2017 for the ABLE Program.

Monies in this line item support the administration of ABLE 529A accounts, which allow individuals to deduct interest earned on monies deposited into accounts used for qualifying expenses of a physically or developmentally disabled beneficiary. Individuals may contribute up to \$14,000 to an ABLE account annually.

Attorney General Legal Services

The budget includes \$10,996,600 and 156.9 FTE Positions in FY 2017 for Attorney General (AG) Legal Services. These amounts consist of:

| | |
|--|-----------|
| General Fund | 1,221,900 |
| Child Support Enforcement Administration Fund | 2,446,900 |
| Child Support Enforcement Administration Fund (EA) | 7,096,200 |
| Federal TANF Block Grant | 106,100 |
| Federal CCDF Block Grant | 17,700 |

| | |
|-------------------------------------|--------|
| Public Assistance Collections Fund | 90,800 |
| Special Administration Fund | 5,000 |
| Spinal and Head Injuries Trust Fund | 2,000 |
| Workforce Investment Act Grant | 10,000 |

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(71,000) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|---|----------|
| General Fund | (7,100) |
| Child Support Enforcement Administration Fund | (15,700) |
| Federal Expenditure Authority | (48,100) |
| Public Assistance Collections Fund | (100) |

Monies in this line item fund all AG legal services for the department.

Aging and Adult Services

Adult Services

The budget includes \$8,624,100 in FY 2017 for Adult Services. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | 7,924,100 |
| Health Services Lottery Monies Fund | 700,000 |

These amounts fund the following adjustments:

One-Time Area Agencies on Aging Services

The budget includes a one-time increase of \$700,000 from the Health Services Lottery Monies Fund in FY 2017 for HCBS provided by the Area Agencies on Aging (AAA).

This line item provides an array of independent living support to elderly persons, distributed as shown in *Table 1*.

| Table 1 | |
|--------------------------------------|--------------------|
| Independent Living Support | |
| Services | FY 2017 |
| Adult Protective Contracted Services | \$ 295,100 |
| Supplemental Payments | 78,000 |
| Home Care | 4,407,300 |
| Older Americans Act | 1,742,500 |
| Assessments and Case Management | 1,639,200 |
| Respite Care | 462,000 |
| Total | \$8,624,100 |

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2017 for Community and Emergency Services. This amount is unchanged from FY 2016.

Monies in this line item provide funding to 15 community action agencies to deliver a wide range of services related to the needs of low-income families and individuals. In FY 2015, this line item provided short-term crisis services to 1,614 households, energy assistance to 34,745 households, and 7,456 households participated in telephone discount programs.

Coordinated Homeless Services

The budget includes \$2,522,600 in FY 2017 for Coordinated Homeless Services programs. This amount consists of:

| | |
|--------------------------|-----------|
| General Fund | 873,100 |
| Federal TANF Block Grant | 1,649,500 |

These amounts are unchanged from FY 2016.

In FY 2015, this line item provided emergency shelter services to 9,613 individuals, rapid re-housing services to 1,811 individuals, and homeless prevention services to 93 individuals.

Domestic Violence Prevention

The budget includes \$14,003,700 in FY 2017 for Domestic Violence Prevention. This amount consists of:

| | |
|---------------------------------|-----------|
| General Fund | 3,383,000 |
| Federal TANF Block Grant | 6,620,700 |
| Domestic Violence Services Fund | 4,000,000 |

These amounts fund the following adjustments:

One-Time Domestic Violence Shelters

The budget includes a one-time increase of \$100,000 from the General Fund in FY 2017 for domestic violence shelters.

Of the total, \$50,000 is appropriated to a facility that has a capacity of at least 100 beds and provides domestic violence services in Maricopa County. Another \$50,000 is appropriated to a facility that provides domestic violence services in Yuma County.

One-Time Projects

The budget includes a one-time increase of \$1,500,000 from the Domestic Violence Services Fund in FY 2017 for projects or capital improvements at domestic violence facilities.

Expenditure Alignment

The budget includes an increase of \$280,000 from the Domestic Violence Services Fund in FY 2017 to align the appropriation with actual expenditures.

In FY 2015, this line item, along with non-appropriated funds, served approximately 7,568 women and children in emergency shelters, 285 women and children in transitional housing, and 13,350 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$27,736,400 from the Federal TANF Block Grant in FY 2017 for TANF Cash Benefits. This amount funds the following adjustments:

Operating Budget Expenditure Alignment

The budget includes a decrease of \$(3,500,000) from the Federal TANF Block Grant in FY 2017 and a corresponding increase of \$3,500,000 to the operating budget to reflect actual fund usage.

DES annually makes a \$3.5 million transfer of surplus TANF from the Cash Benefits line to their operating budget. The FY 2017 budget adjustment makes the transfer permanent.

Cash Benefits Expenditure Alignment

The budget includes a decrease of \$(3,858,000) from the Federal TANF Block Grant in FY 2017 to reflect actual Cash Benefits expenditures. The FY 2017 Cash Benefits appropriation also continues an FY 2016 supplemental decrease of \$(9.9) million to the line item. The TANF Block Grant funds made available by the decrease in the DES Cash Benefits line will be used in the Department of Child Safety (DCS) to offset ongoing General Fund costs. *(Please see the DCS narrative for further details.)*

As of April 2016, DES served a regular TANF Cash Benefits caseload of 19,964 individual recipients. The enacted FY 2017 budget assumes a regular caseload level of 19,064. The average cost per person is projected to be \$90. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial

crisis. The enacted FY 2017 budget assumes a Diversion caseload of 754. The average Diversion payment per person is projected to be \$782.

The FY 2017 Human Services Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 123) includes a session law provision continuing to require recipients of TANF Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives. There is currently a 24-month cumulative lifetime limit on regular TANF Cash Benefits, which will change to a 12-month limit starting on July 1, 2016. Pursuant to the FY 2016 Human Services BRB (Laws 2015, Chapter 18), financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

A household that is already receiving TANF Cash Benefits does not receive more benefits when they have more children. Additional children are considered "benefit capped." Laws 2016, Chapter 133 lifts the benefit cap on children in the legal custody of DCS placed in unlicensed kinship foster care with a non-parent relative and for children placed with a non-parent relative as a result of child maltreatment, a court order, deceased parents, or abandonment. The JLBC Staff estimates that this new policy will cost \$500,000 annually to provide benefits for children who would have previously been considered "benefit capped." These additional caseloads were not included in the overall Cash Benefits caseload assumptions discussed above.

Coordinated Hunger Services

The budget includes \$1,754,600 in FY 2017 for Coordinated Hunger Services programs. This amount consists of:

| | |
|--------------------------|-----------|
| General Fund | 1,254,600 |
| Federal TANF Block Grant | 500,000 |

These amounts are unchanged from FY 2016.

State and federal dollars are used to administer a USDA commodities food program, to assist in statewide food distribution, and for food banks. Monies are also used to provide information on where individuals and families can obtain food. In FY 2015, this funding assisted in the distribution of 4,700,854 congregate meals and 1,662,714 emergency food boxes.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2017 for Tribal Pass-Through Funding. This amount is unchanged from FY 2016.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was spending on the population when the state still had responsibility for the cash assistance program for any particular tribe.

Child Support Enforcement

The Division of Child Support Enforcement (DCSE) budget includes direct appropriations from the following 4 fund sources: 1) General Fund; 2) State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received TANF Cash Benefits; 3) Federal incentives and 4) Fees from non-custodial parents.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state.

Table 2 details the sources and uses of the CSEA Fund.

County Participation

The budget includes \$8,740,200 in FY 2017 for County Participation. This amount consists of:

| | |
|----------------|-----------|
| CSEA Fund | 1,079,100 |
| CSEA Fund (EA) | 7,661,100 |

These amounts fund the following adjustments:

Expenditure Alignment

The budget includes an increase of \$2,000,000 from the CSEA Fund (EA) in FY 2017 to align expenditure authority with actual operations.

Table 2

CSEA Fund Sources and Uses

| <u>Sources</u> | <u>FY 2017</u> |
|--|---------------------|
| State Share of Retained Earnings | 3,291,900 |
| Federal Incentive Payments | 6,300,000 |
| Fees | 1,962,800 |
| Excess Appropriation Authority ^{1/} | <u>7,492,500</u> |
| Total | \$19,047,200 |
| | |
| <u>Uses</u> | |
| DCSE Administration (DES Operating) | \$13,177,900 |
| Attorney General Legal Services | 2,462,600 |
| County Participation | 1,079,100 |
| Administration (Non-Appropriated) | <u>2,327,600</u> |
| Total | \$19,047,200 |

^{1/} This line is the difference between appropriation authority and expected revenues.

The division contracts with Gila, La Paz, and Navajo Counties to operate child support programs in those counties. This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match.

Developmental Disabilities

DES provides services to individuals with cognitive disabilities, cerebral palsy, autism, or epilepsy. Clients eligible for federal Medicaid program services are funded through the Long Term Care (LTC) program. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit, which is approximately 222% of the FPL, and have certain functional needs. The division also provides 100% state-funded services for clients who are not eligible for federal Medicaid services.

The Legislature appropriates the division's resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available to the Division of Developmental Disabilities but does not appropriate any specific non-appropriated fund.

As of April 2016, the Division of Developmental Disabilities serves 36,726 clients, which includes 29,083 clients in the LTC program and 7,643 clients in the state-only portion. The primary disabilities are shown in Table 3.

The LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund.

Table 3

Primary Disability of Clients Served

| <u>Disability</u> | <u>Number</u> | <u>Percentage</u> |
|-------------------------|---------------|-------------------|
| Intellectual Disability | 15,282 | 41.6% |
| Autism | 8,282 | 22.6% |
| At Risk | 8,272 | 22.5% |
| Cerebral Palsy | 3,240 | 8.8% |
| Epilepsy | 1,543 | 4.2% |
| Not Indicated | 107 | 0.3% |
| Total | 36,726 | |

Overall DES Formula Adjustments

The budget includes an increase of \$1,077,600 from the General Fund in FY 2017 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2018 and FY 2019 formula changes.)*

As the AHCCCS-authorized provider of DD services, DES receives federal monies through prepaid monthly capitation payments based on rates for types of clients.

FMAP Adjustments

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2017, the Medicaid FMAP will increase to 69.16% (0.5% increase). The increased FMAP results in additional General Fund savings of \$(3,616,700).

FY 2017 Caseload Growth

The budget includes a net increase of \$21,344,200 from the General Fund in FY 2017 for DD caseload changes. From FY 2016 to FY 2017, LTC caseloads are expected to grow by 4.5% to a level of 31,035 by June 2017 (this amount excludes state-only clients.)

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to HCBS and Case Management/Medical Services only, while caseloads for Institutional Services and the Arizona Training Program at Coolidge were held flat. All

Table 4

June Long Term Care Caseloads

| <u>Line Item</u> | <u>FY 15</u> | <u>FY 16 Est</u> | <u>FY 17 Est</u> |
|---|---------------|------------------|------------------|
| Home and Community Based Services | 24,763 | 26,372 | 27,719 |
| Institutional Services | 95 | 88 | 82 |
| AZ Training Program at Coolidge | 89 | 83 | 78 |
| Subtotal | <u>24,947</u> | <u>26,543</u> | <u>27,879</u> |
| Case Management and Medical Services only | <u>3,258</u> | <u>3,156</u> | <u>3,156</u> |
| Total | 28,205 | 29,699 | 31,035 |

clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

FY 2016 Capitation Rate Adjustments

The budget includes a 2.5% net capitation rate increase beginning July 1, 2016. The increased capitation rate results in an additional General Fund cost of \$9,660,500 in FY 2017. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. *(Please see Other Issues for further discussion of capitation and provider rates.)*

Medicare Clawback

The budget includes an increase of \$441,900 from the General Fund in FY 2017 for adjustments associated with Medicare Clawback Payments.

FY 2016 Supplemental

The budget includes an FY 2016 supplemental of \$26,752,300 from the General Fund for the DD HCBS - Medicaid line item to eliminate a payment deferral and to address a capitation shortfall. The supplemental has a corresponding negative impact of \$(26,752,300) on the DD formula adjustment in FY 2017. *(Please see Other Issues for further details about the FY 2016 supplemental.)*

DDD Operating Lump Sum

The budget includes \$49,477,100 and 294.3 FTE Positions in FY 2017 for the DDD Operating Lump Sum. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 15,256,900 |
| Long Term Care System Fund | 34,220,200 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,754,400 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change and premium tax costs. This amount consists of:

| | |
|----------------------------|---------|
| General Fund | 971,400 |
| Long Term Care System Fund | 783,000 |

Statewide Adjustments

The budget includes a decrease of \$(113,100) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|----------------------------|----------|
| General Fund | (36,800) |
| Long Term Care System Fund | (76,300) |

Background – Monies in this line item fund direct DD operating and administrative costs, which include \$25,686,200 for a 2% premium tax. This line item does not include departmentwide administration and indirect costs. A total of \$1.0 million of central administration funding associated with the DD program remains in the DES operating budget. A footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources.

Case Management - Medicaid

The budget includes \$55,347,700 and 1,076.9 FTE Positions in FY 2017 for Medicaid Case Management. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 17,038,200 |
| Long Term Care System Fund | 38,309,500 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$4,659,000 and 67.3 FTE Positions in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. These amounts consist of:

| | |
|----------------------------|-----------|
| General Fund | 913,700 |
| Long Term Care System Fund | 3,745,300 |

Statewide Adjustments

The budget includes a decrease of \$(279,600) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | (86,200) |
| Long Term Care System Fund | (193,400) |

Background – In addition to providing case management services to an estimated 27,879 clients receiving direct services, this line item also funds “case management only” services to another 3,156 clients (see Table 4).

A footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - Medicaid

The budget includes \$994,277,300 and 94.5 FTE Positions in FY 2017 for Home and Community Based Services - Medicaid. These amounts consist of:

| | |
|----------------------------|-------------|
| General Fund | 306,090,700 |
| Long Term Care System Fund | 688,186,600 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$58,934,200 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 14,663,000 |
| Long Term Care System Fund | 44,271,200 |

One-Time Rollover

The budget includes a decrease of \$(20,000,000) from the General Fund in FY 2017 to reflect the FY 2016 supplemental elimination of an annual payment deferral in this line.

Provider Rate Increase

The budget includes an increase of \$9,052,400 in FY 2017 for a 1% HCBS provider rate increase. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 2,791,800 |
| Long Term Care System Fund | 6,260,600 |

A footnote requires DES to utilize \$9,052,400 from the HCBS - Medicaid line to provide a 1% across-the-board increase to HCBS providers whose current rates are less than 100% of the benchmark rates published in the 2014 rate rebase study. A provider rate may not increase to more than 100% of the benchmark rate as a result of the 1% increase.

Adult Dental

The budget includes an increase of \$3,999,400 in FY 2017 to provide dental services to adults with developmental disabilities. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 1,233,400 |
| Long Term Care System Fund | 2,766,000 |

The FY 2017 Health BRB (Laws 2016, Chapter 122) restores dental coverage for ALTCS adults. The dental benefit will provide coverage for medically necessary diagnostic, therapeutic, and preventive dental services for

adults enrolled in ALTCS, with spending per member capped at \$1,000 annually. These are the same terms of coverage for the dental benefit that was previously eliminated by the enacted FY 2009 budget. ALTCS enrollees age 21 and under are already eligible for dental services.

Statewide Adjustments

The budget includes a decrease of \$(71,300) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|----------------------------|----------|
| General Fund | (18,000) |
| Long Term Care System Fund | (53,300) |

Background – Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C). Approximately 27,719 individuals are expected to receive Medicaid HCBS services in FY 2017 (see Table 4).

Of the \$994,277,300 in this line item, \$981,968,600 funds HCBS services to clients enrolled in the LTC program; the other \$12,308,700 funds program staff.

Institutional Services - Medicaid

The budget includes \$22,610,900 and 74 FTE Positions in FY 2017 for Medicaid Institutional Services. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 6,960,900 |
| Long Term Care System Fund | 15,650,000 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,895,600 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 498,500 |
| Long Term Care System Fund | 1,397,100 |

Statewide Adjustments

The budget includes a decrease of \$(22,000) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|----------------------------|----------|
| General Fund | (6,500) |
| Long Term Care System Fund | (15,500) |

Background – Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-IDs) (formerly referred to as ICF-MRs) or other nursing facilities, both privately and state-operated, excluding ATP-C. About 82 individuals are expected to receive Medicaid institutional services in FY 2017 (see Table 4).

Of the \$22,610,900 in this line item, \$17,045,400 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

Medical Services - Medicaid

The budget includes \$165,514,500 and 35.4 FTE Positions in FY 2017 for Medical Services. These amounts consist of:

| | |
|----------------------------|-------------|
| General Fund | 50,951,900 |
| Long Term Care System Fund | 114,562,600 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$13,864,700 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 3,645,100 |
| Long Term Care System Fund | 10,219,600 |

Statewide Adjustments

The budget includes a decrease of \$(27,900) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|----------------------------|----------|
| General Fund | (9,000) |
| Long Term Care System Fund | (18,900) |

Background – Of the \$165,514,500 in this line item, \$161,036,500 funds Acute Care services to clients enrolled in the LTC program; the other \$4,478,000 funds the staff of the division’s Managed Care unit.

Arizona Training Program at Coolidge - Medicaid

The budget includes \$15,735,100 and 383.7 FTE Positions in FY 2017 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 4,854,400 |
| Long Term Care System Fund | 10,880,700 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(56,000) from the General Fund and a corresponding increase of \$56,000 from the Long Term Care System Fund in FY 2017 for formula adjustments. The formula adjustment consists of the federal match rate change.

Statewide Adjustments

The budget includes a decrease of \$(87,000) in FY 2017 for statewide adjustments. This amount consists of:

| | |
|----------------------------|----------|
| General Fund | (25,100) |
| Long Term Care System Fund | (61,900) |

The ATP-C campus is made up of an ICF-ID and 5 group homes that are occupied by members, as well as a number of unoccupied group homes. DES is considering closing the facilities at Coolidge in the next 3 to 5 years and transitioning current residents to other residential or in-home service settings in order to comply with federal law that requires states to provide HCBS services and supports in a home or community setting which does not include an intermediate care facility. As permanent law, the FY 2017 Human Services BRB requires DES to annually report a plan and estimated budget to the JLBC for review by November 1 for the closure of ATP-C and associated group homes. DES is required to notify and meet with all clients and guardians that will be impacted by the transition and provide them with a list of potential residential settings and in-home service options.

Background – Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF-IDs or state-operated group homes (SOGHs). As of June 2015 the caseload at ATP-C was 89. The FY 2017 caseload is estimated at 78 (see Table 4). At that caseload, the blended cost per DD client at ATP-C will be roughly \$201,700.

Medicare Clawback Payments

The budget includes \$3,370,600 from the General Fund in FY 2017 for Medicare Clawback Payments. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$441,900 from the General Fund in FY 2017 for formula adjustments associated with Medicare Clawback Payments.

Background – DES is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DES is required to make “Clawback”

payments to Medicare based on a certain percent (75% in 2017) of the estimated drug costs.

Case Management - State-Only

The budget includes \$3,893,700 and 79.3 FTE Positions from the General Fund in FY 2017 for state-only case management. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(19,000) from the General Fund in FY 2017 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program. In FY 2017, this line is expected to fund services for 7,643 clients.

A footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - State-Only

The budget includes \$16,913,400 and 53.6 FTE Positions in FY 2017 for state-only Home and Community Based Services. These amounts consist of:

| | |
|-----------------------------|------------|
| General Fund | 16,793,400 |
| Special Administration Fund | 120,000 |

These amounts fund the following adjustments:

Equity Adjustment

The budget includes a decrease of \$(4,697,300) from the Long Term Care System Fund in FY 2017 to reflect that Long Term Care System Fund dollars are no longer spent in this line.

In previous years, the Long Term Care System Fund appropriation in this line consisted of capitation payment equity. These monies are now required to be transferred to the General Fund, so there is no equity available for HCBS State-Only services.

Provider Rate Increase

The budget includes an increase of \$167,500 from the General Fund in FY 2017 for a 1% HCBS provider rate increase.

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at

home to those living in group homes. It also includes funding for state-operated facilities, excluding ATP-C. As of April 2015, there are approximately 7,643 clients in the state-only program.

The budget continues to include \$120,000 from the Special Administration Fund to fund HCBS services for persons whose service costs go above the Cost Effective Study (CES) rate as a result of provider rate increases.

Of the \$16,913,400 in this line item, \$10,896,300 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$4,319,000 funds the Arizona Early Intervention Program.

State-Funded Long Term Care Services

The budget includes \$27,159,600 and 2 FTE Positions in FY 2017 for State-Funded Long Term Care Services. These amounts consist of:

| | |
|-----------------------------|------------|
| Long Term Care System Fund | 26,559,600 |
| Special Administration Fund | 600,000 |

These amounts fund the following adjustments:

One-Time Room and Board Shortfall

The budget includes a one-time increase of \$600,000 from the Special Administration Fund in FY 2017 for room and board services for DD clients.

Statewide Adjustments

The budget includes an increase of \$5,600 from the Long Term Care System Fund in FY 2017 for statewide adjustments.

Background – This line item funds a variety of services ineligible for Federal Funds reimbursement from AHCCCS. The most common service provided in this line item is room and board. The program also funds residential and day programs to clients with more severe developmental disabilities. These clients reside in Large Group Living Facilities or other nursing facilities.

Of the \$27,159,600 in this line item, \$27,097,800 funds State-Funded Long Term Care (SFLTC) Services to clients enrolled in the DD program; the other \$61,800 funds program staff. (Please see *Other Issues for further discussion of SFLTC services.*)

Employment and Rehabilitation Services

JOBS

The budget includes \$13,005,600 and 93 FTE Positions in FY 2017 for JOBS. These amounts consist of:

| | |
|--------------------------------|-----------|
| General Fund | 300,000 |
| Federal TANF Block Grant | 9,594,700 |
| Workforce Investment Act Grant | 2,000,000 |
| Special Administration Fund | 1,110,900 |

These amounts are unchanged from FY 2016.

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 5* highlights total estimated expenditures for the JOBS line item.

| <u>Expenditures</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| Case Management | \$ 9,420,000 |
| Job Training | 1,700,600 |
| FLSA Supplement | 150,000 |
| Work-Related Transportation | 1,435,000 |
| Job Search Stipends | 300,000 |
| Total | \$13,005,600 |

Child Care Subsidy

The budget includes \$98,396,600 in FY 2017 for child care subsidies. This amount consists of:

| | |
|--------------------------|------------|
| Federal CCDF Block Grant | 95,678,800 |
| Federal TANF Block Grant | 2,717,800 |

These amounts are unchanged from FY 2016.

The FY 2017 Human Services BRB includes a session law provision continuing to allow DES to reduce the maximum income eligibility levels for child care assistance to manage within appropriated and available monies.

Laws 2016, Chapter 187 extends child care assistance to some current recipients. Under current law, once recipient income exceeds 165% of FPL (\$33,100 for a family of 3), they are no longer eligible for child care subsidies. Chapter 187 retains the 165% entry maximum, but allows clients to remain eligible for services until their income reaches 85% of the state median income (\$41,900 for a family of 3). The law allows DES to set rules for how long families can receive child care when they are between 165% FPL and 85% of state median income. The

law also extends the child care eligibility redetermination period to 1 year from 6 months and adds a state-approved quality indicator that the department can use to determine pay levels for child care. These provisions fulfill new federal CCDF reauthorization requirements.

The JLBC Staff estimates that the provisions could expand child care eligibility to more families and increase costs by \$5.3 million, but without additional funds the department would place families on the child care waitlist and manage within their appropriated funding level.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 85% of the state median income that were below 165% of the FPL at the time of application, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment. DES also processes DCS child care payments but those dollars are in DCS.

Depending on the population group to which they belong, the length of time for which families are eligible to receive child care subsidies is restricted by statute. For the low-income working population, there is a 60-month cumulative time limit per child. The Transitional Child Care benefit is available for 24 months. The TANF Child Care benefit is available to families as long as they are receiving TANF Cash Benefits, which currently has a 24-month cumulative lifetime time limit that will go down to a 12-month limit on July 1, 2016.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be \$337 per month in FY 2017 and the average subsidy for the DCS population is projected to be \$405 per month. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa rate, this \$2.00 co-payment would account for 7.5% of the total cost of care (with the state paying the other 92.5%). By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 37.6% of the child’s child care costs.

Caseloads – The estimated average number of children receiving child care services in FY 2017 is projected to be 17,340 (see *Table 6*) excluding DCS-related child care.

DES initiated a waiting list for the Low-Income Working category of child care services on February 18, 2009. Children must be determined eligible for child care services to be placed on the waitlist. In January 2015, DES released all 5,239 children on the waitlist and notified the families to re-apply for child care. DES then re-established the waitlist for any new applications received after the full release. As of May 2016, approximately 7,182 children are on the waiting list. It is unknown how many of those children remain eligible.

| Category | FY 15 | FY 16 est | FY 17 est ^{1/} |
|-------------------------|--------------|------------------|--------------------------------|
| TANF | 2,233 | 2,262 | 1,940 |
| Low-Income Working | 11,878 | 12,844 | 10,550 |
| Transitional Child Care | <u>4,855</u> | <u>5,066</u> | <u>4,850</u> |
| Total Served | 18,966 | 20,172 | 17,340 |

^{1/} FY 2017 numbers are DES estimates.

Rehabilitation Services

The budget includes \$7,249,100 in FY 2017 for Rehabilitation Services. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | 6,594,400 |
| Spinal and Head Injuries Trust Fund | 654,700 |

These amounts fund the following adjustments:

Vocational Rehabilitation Services

The budget includes an increase of \$2,450,000 in FY 2017 for Vocational Rehabilitation services. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | 2,000,000 |
| Spinal and Head Injuries Trust Fund | 450,000 |

DES categorizes VR clients into 3 categories: Priority 1, Priority 2 and Priority 3. Priority 1 clients have a severe physical or mental impairment that limits 3 or more functional capacities, Priority 2 clients have a severe physical or mental impairment that limits 1 or more functional capacities, and Priority 3 clients have an impairment that does not seriously limit functional capacities. Currently DES provides VR services to all Priority 1 clients. The additional funds included in the FY 2017 budget will allow DES to serve roughly 2,868 Priority 2 clients currently on the waitlist.

One-Time Rollover

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2017 to reflect the FY 2016 supplemental elimination of an annual payment deferral in this line.

Background – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 11,799 clients at an average Total Funds cost of \$15,647 per client. Administrative expenditures and local match draw down additional federal match.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2017 for Independent Living Rehabilitation Services. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | 166,000 |
| Spinal and Head Injuries Trust Fund | 1,123,400 |

These amounts are unchanged from FY 2016.

The Independent Living Rehabilitation Services program is expected to serve up to 665 clients in FY 2017 at an average Total Funds cost of \$3,250.

In addition to these clients, the division is also expected to serve 100 clients at an average annual cost of \$4,870 per client, using federal Social Services Block Grant monies.

The line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

Workforce Investment Act Services

The budget includes \$51,654,600 from the Workforce Investment Act (WIA) Grant in FY 2017 for the Workforce Investment Act Services line item. These amounts are unchanged from FY 2016.

Background – These monies are the state’s allotment of the federal WIA Grant for job training activities of dislocated workers and disadvantaged adults and youth. Of the total grant received by the state, 95% is allocated to local governments and 5% is retained at the state level.

The allocation of the WIA Grant for workforce related programs in FY 2017 is shown in *Table 7*.

| <u>Category</u> | <u>Amount</u> |
|-------------------|--------------------------------|
| WIA Line Item | \$51,654,600 |
| Administration | 2,385,900 ^{1/} |
| AG Legal Services | 10,000 |
| JOBS | <u>2,000,000</u> ^{2/} |
| Total | \$56,050,500 |

^{1/} This funding is included in the operating budget.
^{2/} This funding is included in the JOBS line item.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Supplemental
- State-Funded Long Term Care Services
- Provider Rates
- Appropriation Transfers
- Federal TANF Block Grant
- Additional Legislation

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, DES’ General Fund costs are projected to increase by \$25.5 million in FY 2018 above FY 2017 and \$28.7 million in FY 2019 above FY 2018 based on estimated DD formula costs. The DD estimates are based on:

- 4.5% caseload growth in FY 2018 and FY 2019, resulting in caseloads of 32,432 and 33,891 in June 2018 and June 2019, respectively.
- FMAPs of 69.39% and 69.50% in FY 2018 and FY 2019, respectively.
- 2.5% capitation growth for utilization and medical inflation in FY 2018 and FY 2019.

FY 2016 Supplemental

DD Shortfall

As part of the FY 2017 budget, the Division of Developmental Disabilities received a supplemental appropriation in FY 2016 of \$6,752,300 from the General Fund and \$14,893,200 in LTCSF Expenditure Authority to address a program shortfall. These monies were allocated to the HCBS - Medicaid line item.

The Division of Developmental Disabilities receives funding through capitated payments at a per member per month rate. The capitation rate represents the total cost to operate the ALTCS portion of the DD program and to provide services for its members. The capitation rate is

renegotiated annually by DES, AHCCCS and the federal government to adjust for changes in medical inflation, utilization of services, and provider costs. The capitation rate along with caseload estimates are used to calculate the division's annual appropriation.

The FY 2016 budget assumed a 4.5% increase to the DD caseloads. The revised FY 2016 caseload estimates show a 5% increase, which will produce higher costs. As a result the originally-enacted FY 2016 budget was short by roughly \$3.6 million from the General Fund to fully fund the DD capitation rates.

In addition, DES stated that they used \$3.2 million of the FY 2016 General Fund appropriation to draw the entire FY 2015 capitation amount, bringing the total FY 2016 budget shortfall to \$6.8 million. The department says drawing down the entire FY 2015 capitation will allow them to transfer an equity balance of \$34.0 million back to the General Fund at the end of FY 2016.

Theoretically, the capitated system of payments should not generate significant amounts of equity in the long run. Capitation rates are renegotiated annually, and the federal government should be adjusting their rates accordingly.

Payment Deferral Elimination

As part of the FY 2017 budget, DES received an FY 2016 supplemental appropriation of \$21.0 million from the General Fund to eliminate a payment deferral. These monies were allocated as follows:

| | |
|--|------------|
| Home and Community Based Services - Medicaid | 20,000,000 |
| Rehabilitation Services | 1,000,000 |

Bridge Loan

As part of the FY 2017 budget, DES received an FY 2016 supplemental loan of \$35.0 million from the Budget Stabilization Fund to fund federal reimbursement grants. DES is required to fully reimburse the \$35.0 million by September 1, 2016 as part of the closing process for FY 2016 so it has no impact on the General Fund bottom line. DES must submit a report by November 30, 2016 outlining the process by which the agency will improve the federal reimbursement claiming process to eliminate the need for a future bridge loan.

TANF Cash Benefits Ex-appropriation

As part of the FY 2017 budget, the FY 2016 TANF Block Grant appropriation in the Cash Benefits line is reduced by \$(9.9) million to reflect actual expenditures. The TANF Block Grant funds made available by the decrease in DES

will be used in DCS to offset ongoing General Fund costs. (Please see the DCS narrative for further details.)

State-Funded Long Term Care Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, as seen in Table 8, include client billing revenue from room and board charges, one-time monies, and interest. SFLTC revenues primarily fund the SFLTC Services line item.

DES requires clients using residential programs to contribute a percentage of their income to help cover the cost of their room and board. Laws 2014, Chapter 167 decreased the amount of income DES is allowed to collect from clients for room and board from 88% to 70%, which was estimated to reduce client billing revenue by \$(2.7) million. Additionally, the SFLTC line item has been operating with an ongoing structural shortfall that DES has mitigated with transfers from LTCSF equity, which is no longer available. Any equity accrued to the LTCSF is now required to be transferred to the General Fund so it is no longer available for the SFLTC line item. DES estimates a FY 2016 shortfall of \$(2.9) million and an ongoing structural shortfall of \$(4.4) million in the SFLTC line item. The budget includes a one-time increase of \$600,000 from the Special Administration Fund to the SFLTC line in FY 2017, which will decrease the shortfall to \$(3.8) million in FY 2017. The budget did not address the FY 2016 shortfall.

| | FY 2015 Actual | FY 2016 Estimate | FY 2017 Estimate |
|------------------------|---------------------------|-----------------------------|-----------------------------|
| Sources | | | |
| Carry-Forward | \$ 7,306,800 | \$ 2,384,700 | \$ - |
| Client Billing Revenue | 19,904,400 | 21,628,800 | 23,391,500 |
| Interest | 2,118,900 | 870,900 | 870,900 |
| Special Admin Fund | - | - | 600,000 |
| Other | <u>1,137,300</u> | <u>1,137,300</u> | <u>1,137,300</u> |
| Total | \$30,467,400 | \$26,021,700 | \$25,999,700 |
| Uses | | | |
| SFLTC Services | <u>28,082,700</u> | <u>28,910,100</u> | <u>29,762,500</u> |
| Total | \$28,082,700 | \$28,910,100 | \$29,762,500 |
| Ending Balance | \$ 2,384,700 | \$ (2,888,400) | \$ (3,762,800) |

Provider Rates

Provider rates are a component of the overall capitation rate. A capitation rate increase, however, does not mean that provider rates will experience the same increase.

The capitation rate funds provider rate, inflation, and utilization adjustments so a capitation rate increase of a certain percent does not guarantee a like provider rate increase.

DES has different contracted rates with various types of providers. The divisions recently completed a rate rebase study that compared adopted provider rates with market “benchmark” rates. Current rates range from 75% to 100% of the benchmarks. These adopted rates are the result of revised FY 2016 capitation rates which included an overall 1.5% increase for HCBS providers effective October 2015. DES used the adjustment to provide a 1.0% across-the-board increase for services at or below 85% of the benchmark rate, excluding targeted services which received a larger rate increase. DES increased the adopted rates of most ALTCs covered services to a minimum of 75% of benchmark, and reduced rates over 100% of benchmark to 100%. The FY 2017 budget includes an additional 1% across-the-board increase for HCBS providers, but caps any increase from taking a rate above 100% of benchmark.

Appropriation Transfers

DES’ appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative review; however, the FY 2017 budget continues a footnote requiring DES to submit a report for review to the JLBC before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items. The purpose of the footnote is to provide oversight if the department proposes to increase or decrease administrative resources.

In February 2016, DES received JLBC review for a requested transfer of \$10.5 million from the HCBS - Medicaid line to the DDD Operating Budget to align appropriations with FY 2015 expenditures, pay for a premium tax increase, and for contingency funding. DES also requested a transfer of \$5.5 million from the HCBS - Medicaid line to the Case Management - Medicaid line to align appropriations with FY 2015 expenditures and pay for salary adjustments for case managers. The JLBC favorably reviewed a portion of the requested transfers, which included \$7.3 million for the DDD Operating Budget and \$4.2 million for Case Management - Medicaid to align appropriations with FY 2015 expenditures, pay for the premium tax increase, and pay for case manager salary adjustment for the remainder of FY 2016.

An ADOA agency appropriation transfer report showed that in April 2016, contrary to JLBC review, DES

transferred the entire \$10.5 million from the HCBS - Medicaid line to DDD Operating and the entire \$5.5 million from the HCBS - Medicaid line to Case Management - Medicaid.

Federal TANF Block Grant

The budget appropriates \$222.4 million of the state’s Federal TANF Block Grant allocation in FY 2017. *Table 9* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

The FY 2017 Human Services BRB retroactively notwithstanding a provision in the FY 2016 budget that would have required DES and DCS to proportionally reduce General Fund dollars for every federal TANF Block Grant dollar received in excess of their FY 2016 TANF appropriations. The BRB also stipulates that DES and DCS may not spend TANF monies in excess of their FY 2016 appropriations unless either department receives a supplemental TANF appropriation.

The FY 2017 budget includes adjustments to the TANF Block Grant distributions between DES and DCS in FY 2016 and FY 2017. The budget includes an FY 2016 supplemental TANF increase in DCS of \$17.3 million and a supplemental TANF decrease in DES of \$(9.9) million. In FY 2017, the budget includes a further TANF increase of \$0.2 million in DCS and a further TANF decrease of \$(3.9) million in DES. The adjustments allow DCS to utilize surplus TANF available as a result of decreasing Cash Benefits caseloads in DES and surplus TANF available as a result of a structural balance in the fund.

Additional Legislation

Supplemental Nutrition Assistance Program

Laws 2016, Chapter 20 prohibits the sale, transfer, acquisition or redemption of Supplemental Nutrition Assistance Program (SNAP) benefits for cash or items other than eligible food and defines what is considered as eligible food items. Violation of the law is considered a Class 5 felony with a presumptive 1.5 years of incarceration and a fine of up to \$150,000 plus surcharges.

Domestic Violence Services Fund

Laws 2016, Chapter 94 renames the Domestic Violence Shelter Fund to the Domestic Violence Services Fund and allows providers of domestic violence services, rather than only shelters for victims of domestic violence, to be eligible to receive fund monies.

Office of Economic Opportunity

Laws 2016, Chapter 372 creates the Office of Economic Opportunity (OEO), which is responsible for monitoring the state's tax competitiveness, evaluating the effectiveness of state incentive programs, analyzing state and local regulatory costs to businesses, serving as the state's workforce planning coordinator, and providing economic and demographic research and analysis. The budget includes a transfer of 1 FTE Position and \$104,000 in Federal Funds from DES to OEO. *(Please see the Office of Economic Opportunity section for more information.)*

Table 9

TANF Block Grant Spending

| | Actual FY 2015 | Estimate FY 2016 | Estimate FY 2017 |
|--|-----------------------|-----------------------|-----------------------|
| Revenues | | | |
| Beginning Balance | \$ 383,500 | \$ 3,709,300 | \$ - |
| Administrative Adjustments ^{1/} | (383,500) | - | - |
| TANF Base Revenues | 200,141,300 | 200,141,300 | 200,141,300 |
| TANF Contingency Fund Revenues | 22,296,100 | 22,296,100 | 22,296,100 |
| Total TANF Available | \$ 222,437,400 | \$ 226,146,700 | \$ 222,437,400 |
| Expenditures | | | |
| Department of Child Safety | | | |
| DCS Operating | \$ 46,928,000 | \$ 46,928,000 | \$ 16,928,000 |
| Line Items | | | |
| Caseworkers | - | - | 30,000,000 |
| Lump Sum Appropriation | - | 17,323,600 | - |
| Attorney General Legal Services | 649,100 | 99,400 | 99,400 |
| Inspections Bureau | - | 549,700 | 549,700 |
| Overtime | 3,859,500 | 3,859,500 | 3,859,500 |
| Adoption Services | 20,645,700 | 20,645,700 | 20,445,700 |
| Emergency and Residential Placement | 16,423,000 | 16,423,000 | 16,423,000 |
| Foster Care Placement | 6,973,100 | 6,973,100 | 6,973,100 |
| Permanent Guardianship Subsidy | 1,743,000 | 1,743,000 | 1,943,000 |
| In-Home Mitigation | - | - | 5,911,200 |
| Preventive Services | - | - | - |
| In-Home Preventive Support Services | 5,911,200 | 5,911,200 | - |
| Out-of-Home Support Services | 28,867,800 | 28,867,800 | 46,340,100 |
| TOTAL - DEPARTMENT OF CHILD SAFETY | \$ 132,000,400 | \$ 149,324,000 | \$ 149,472,700 |
| Department of Economic Security | | | |
| DES Operating | \$ 23,198,500 | \$ 20,315,500 | \$ 20,315,500 |
| Line Items | | | |
| Administration | | | |
| Attorney General Legal Services | \$ 123,100 | \$ 106,100 | \$ 106,100 |
| Aging and Adult Services | | | |
| Community and Emergency Services | \$ 3,724,000 | \$ 3,724,000 | \$ 3,724,000 |
| Coordinated Homeless Programs | 1,649,500 | 1,649,500 | 1,649,500 |
| Domestic Violence Prevention | 6,620,700 | 6,620,700 | 6,620,700 |
| Total - Aging and Adult Services | \$ 11,994,200 | \$ 11,994,200 | \$ 11,994,200 |
| Benefits and Medical Eligibility | | | |
| TANF Cash Benefits | \$ 38,599,400 | \$ 31,594,400 | \$ 27,736,400 |
| Coordinated Hunger Program | 500,000 | 500,000 | 500,000 |
| Total - Benefits and Medical Eligibility | \$ 39,099,400 | \$ 32,094,400 | \$ 28,236,400 |
| Employment and Rehabilitation Services | | | |
| JOBS | \$ 9,594,700 | \$ 9,594,700 | \$ 9,594,700 |
| Child Care Subsidy | 2,717,800 | 2,717,800 | 2,717,800 |
| Total - Employment and Rehabilitation Services | \$ 12,312,500 | \$ 12,312,500 | \$ 12,312,500 |
| TOTAL - DEPARTMENT OF ECONOMIC SECURITY | \$ 86,727,700 | \$ 76,822,700 | \$ 72,964,700 |
| TOTAL - STATEWIDE | \$ 218,728,100 | \$ 226,146,700 | \$ 222,437,400 |
| Ending Balance | \$ 3,709,300 | \$ - | \$ - |

^{1/} Per a General Appropriation Act footnote, the portion of the carry-forward balance that is used to pay administrative adjustments is deducted from the beginning balance.